



State of the U.S. Economy Is Strong...

Foreword by Treasury Secretary John W. Snow

Looking back on the more than three years that I have had the privilege to serve as Treasury Secretary, there can be no question that our economy has made remarkable improvements with Americans having lower tax rates, more jobs and higher standards of living. There can also be no question that well-timed tax relief, combined with responsible leadership from the Federal Reserve Board, has been a key component to our current economic strength.

To truly recognize where the economy began to turn around, it is important to look back to May of 2003, when the President signed the Jobs and Growth Act. Virtually overnight businesses took advantage of the benefits of lower tax rates and began investing, which then led to job growth – more than 5.3 million to be exact. As businesses grew and more Americans were working in good paying jobs, tax revenues also began to increase, and in fact today, tax revenues are now at an all time high. Surging tax revenues assist in meeting the President's deficit reduction target, and I am happy to report we are on the right path to meeting it earlier than expected.

With last quarter's economic growth revised upward to a remarkable 5.3 percent rate as measured by the Gross Domestic Product or GDP; and the unemployment rate being lower than the average of the 60's, 70's, 80's or 90's, the American economy proves to be on solid footing. The question that those of us in government must look at now is this: what can we do to continue these positive trends?

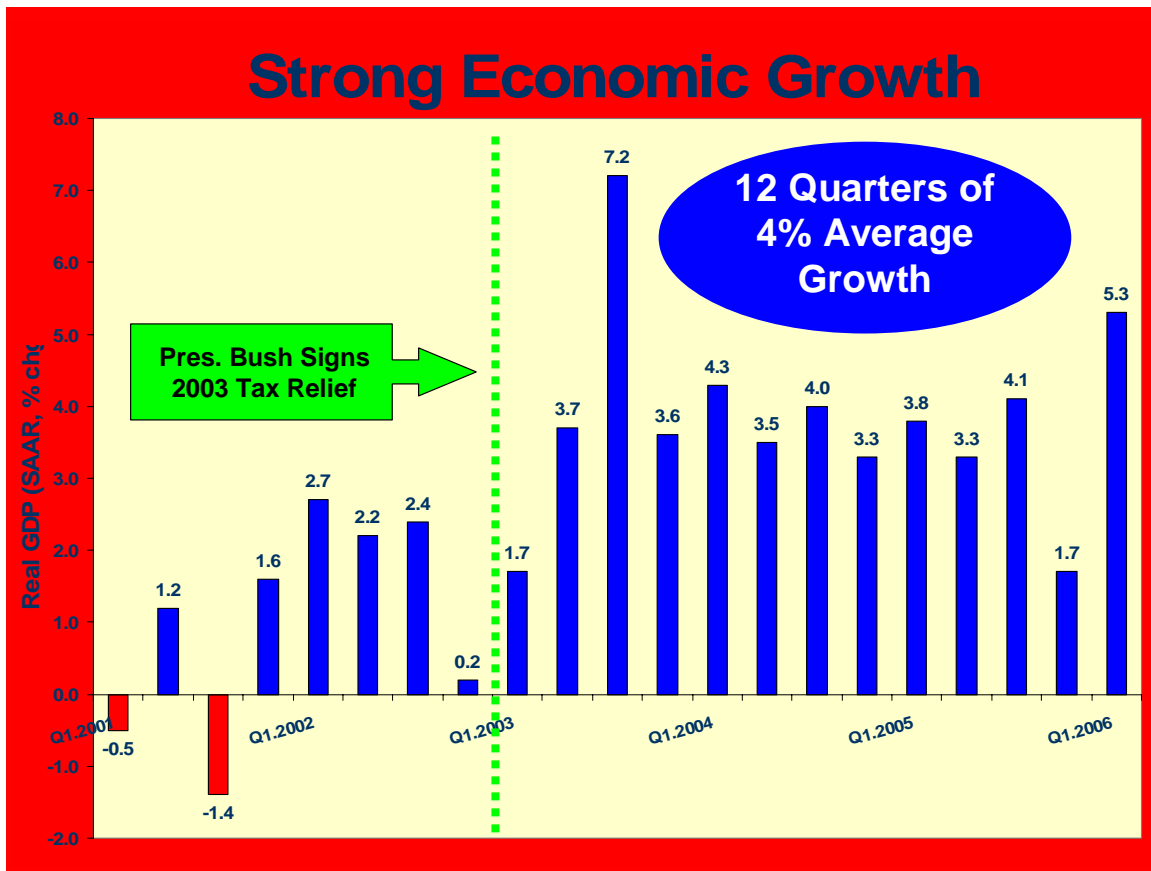
The answers as I see them are clear; keep the taxes low, avoid protectionist pressures and restrain spending. At the same time, it is equally important that we look to other areas where we can improve in order to sustain higher standards of living for Americans now and for future generations. Areas such as education, innovation, health care, energy, and opening new markets for America's workers are all critical to economic strength. And that is precisely why the President is working hard to put good policies in place that will improve the lives of every American.

I hope you enjoy this briefing on U.S. economic strength. I am confident that the President's economic leadership will sustain our strength in the global economy.

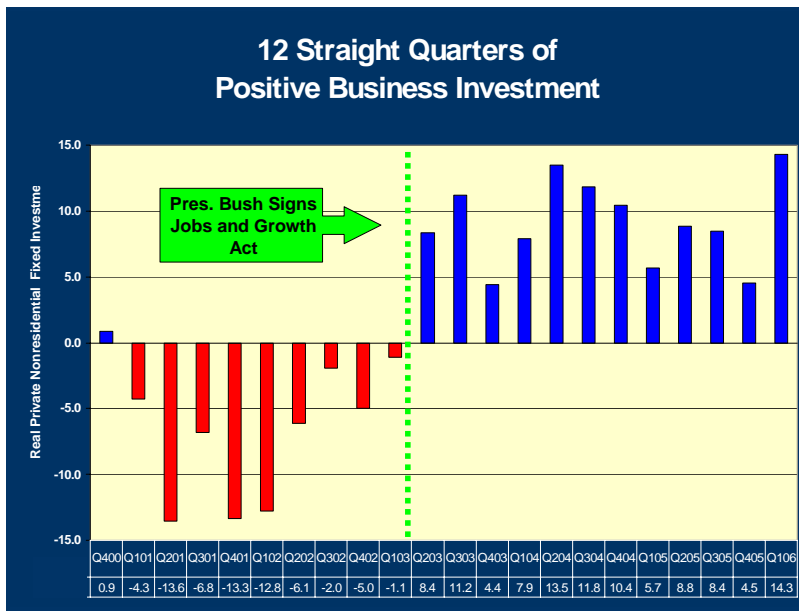


PART I:

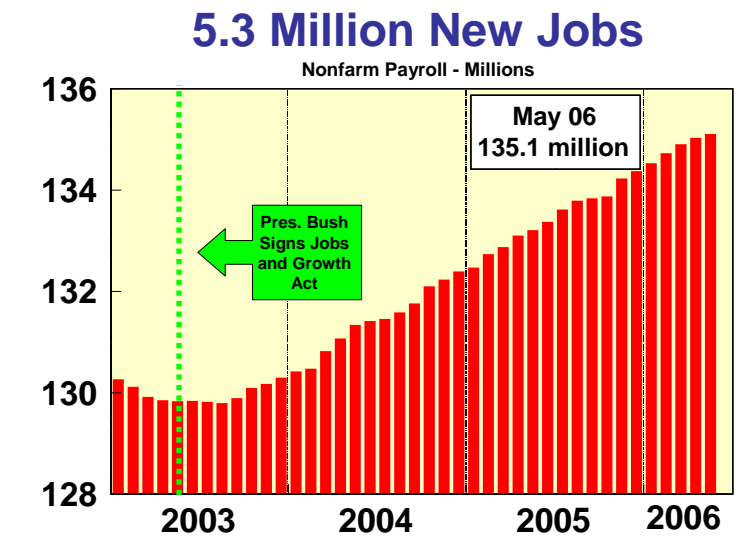
U.S. ECONOMIC STRENGTH INDICATORS

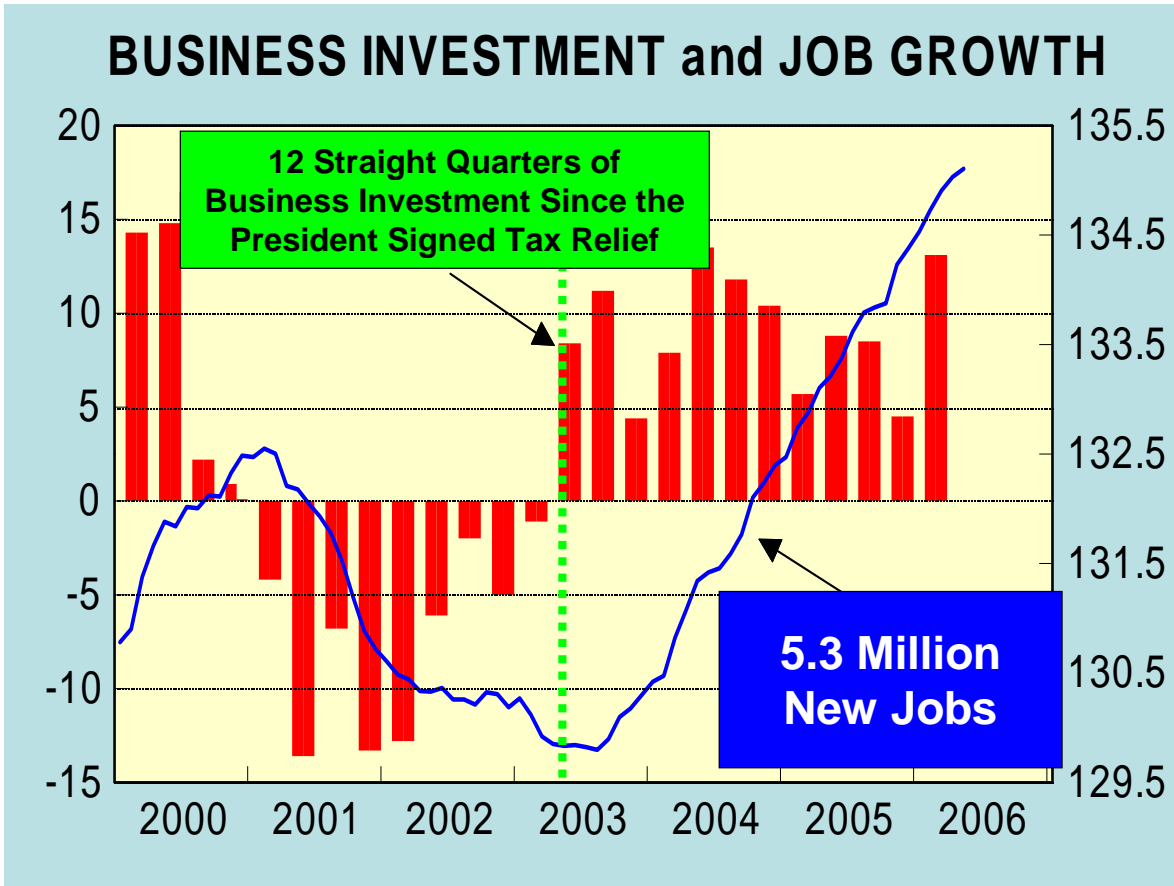


- In the first quarter of 2006, real GDP grew at a 5.3 percent annual rate.
- Since mid-2003 the economy has grown at a 4 percent annual rate.



- Business investment has grown for 12 straight quarters.
- During the past three years, business investment has grown at a 9 percent annual rate.
- High levels of business investment tend to pave the way for more job creation.



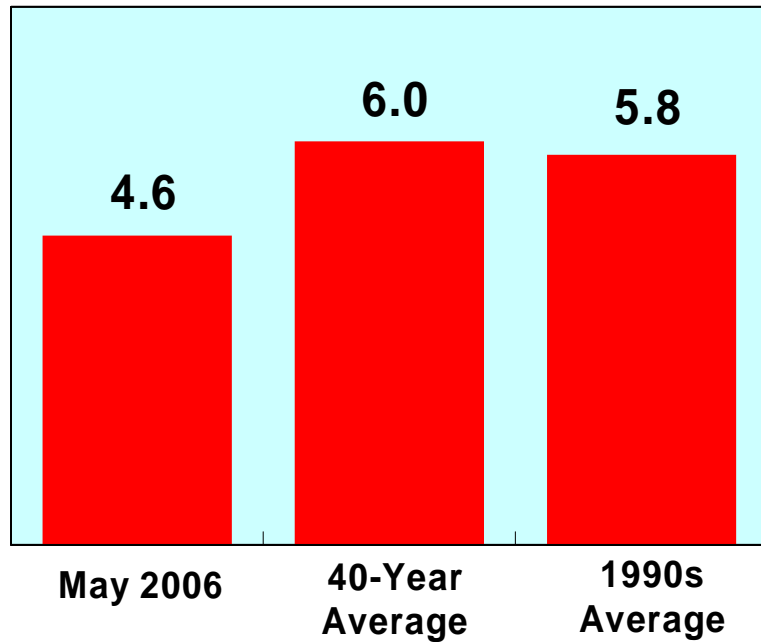


- Soon after business investment growth began to pick back up, job growth began following suit.
- Since the President's 2003 tax relief took effect business investment has remained positive for 12 straight quarters and more than 5.3 million new jobs have been created.



Remarkably Low UNEMPLOYMENT RATE

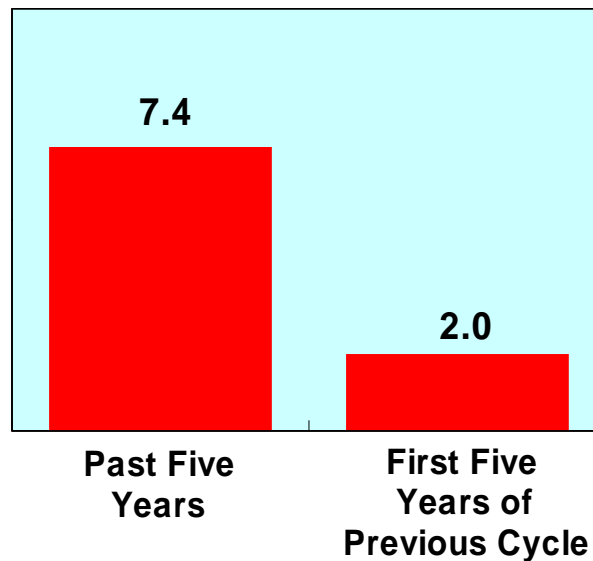
Percent



- At 4.6 percent, the unemployment rate is lower than the average of the 1960s, 1970s, 1980s, or 1990s.

Compensation Growth is Better Than Comparable Point in Previous Cycle

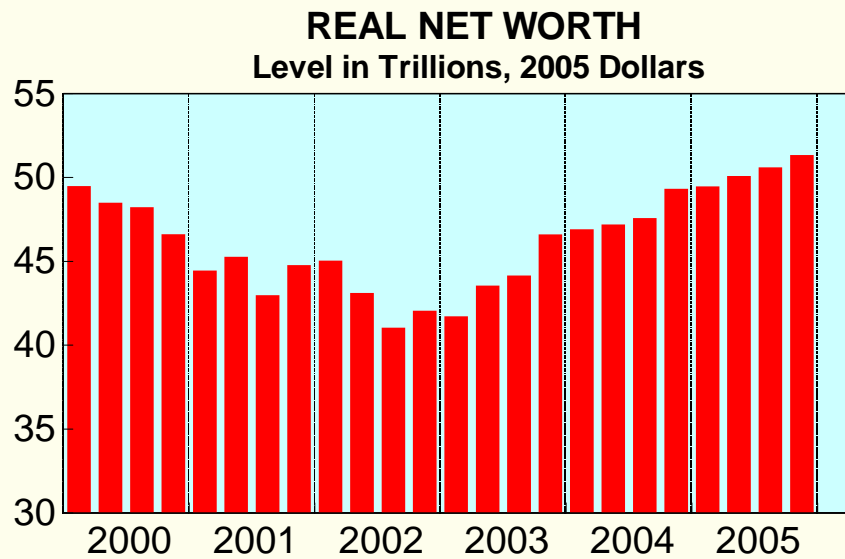
REAL HOURLY COMPENSATION
Percent Growth



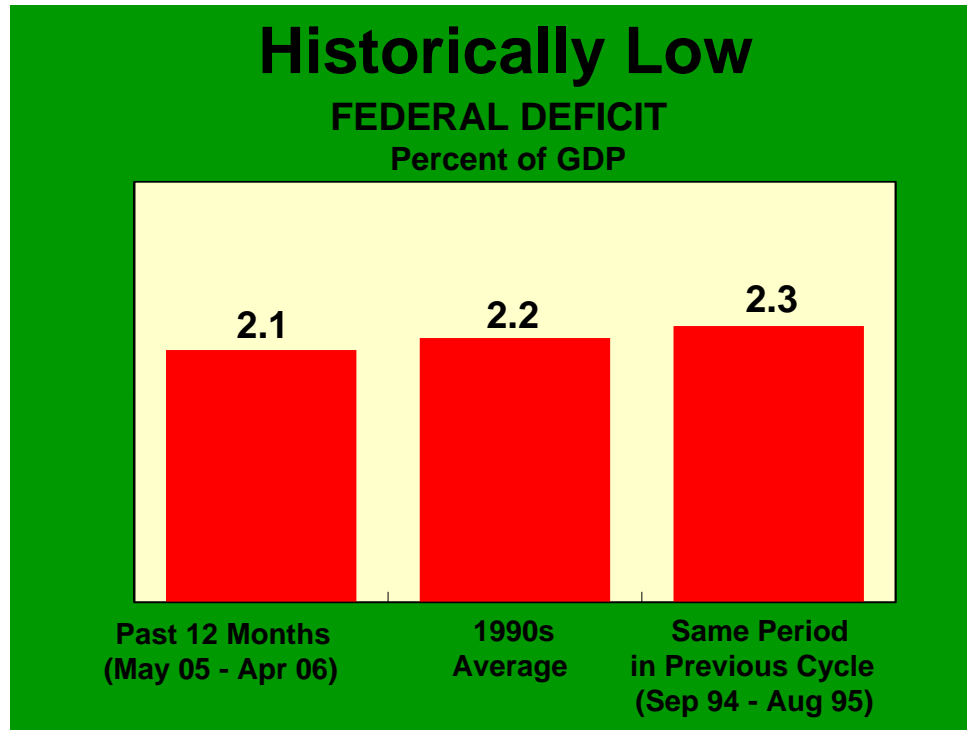
- From the first quarter of 2001 to the first quarter of 2006, real compensation per hour has gone up 7.4 percent.
- During the same period in the previous business cycle (Q2.1990 to Q2.1995) real hourly compensation was up only 2 percent.
- Real compensation per hour is worker pay plus benefits adjusted for inflation and the number of hours worked.



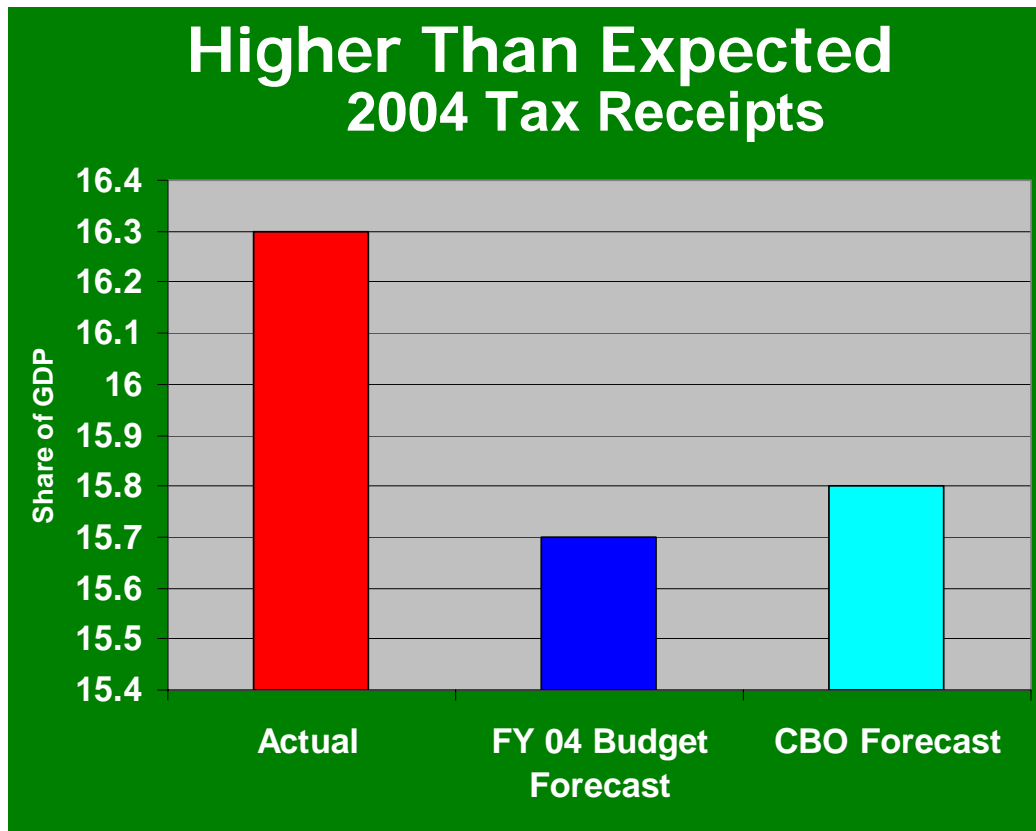
Real Net Worth Is Rising



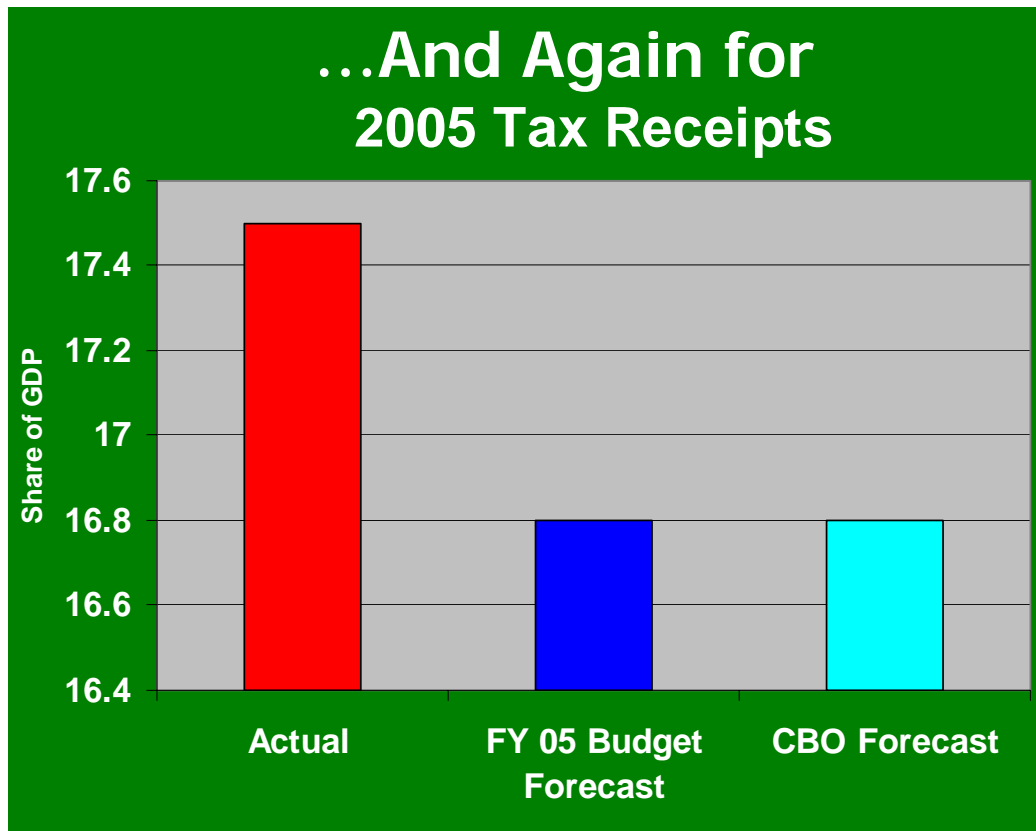
- Consumer net worth was \$52.1 trillion at the end of 2005, a record high, even if adjusted for inflation.
- Consumer net worth reflects the value of the assets that households own, minus their liabilities (what they owe).



- In the twelve months through April 2006, the federal deficit was 2.1 percent of GDP.
- The federal deficit averaged 2.2 percent during the 1990s.
- At a similar point in the previous business cycle (September 1994 – August 1995), the federal deficit was 2.3 percent of GDP.
- Lower tax rates are consistent with good deficit performance.
- Current deficit reduction rate is on track to meet the President's goal and cut the deficit in half early.



- Tax receipts were higher than expected in 2004.
- In early 2004, both the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) predicted receipts would be about 15¾ percent of GDP (for FY 2004).
- It turned out that receipts came in at 16.3 percent of GDP. That's a difference of about \$60 billion.



- After exceeding expectations in 2004, the growth of tax revenue continued to exceed expectations in 2005.
- In early 2005, OMB and CBO both predicted revenue of 16.8 percent of GDP (for FY 2005).
- Instead, we ended up receiving revenue equal to 17.5 percent of GDP. That's a difference of about \$85 billion.
- Year-to-date tax revenues are running 11.1 percent over last year, after a 14.6 percent increase in 2005.



PART II:

A BROAD, PRO-GROWTH ECONOMIC AGENDA WILL SUSTAIN HIGHER STANDARDS OF LIVING FOR AMERICANS.

The President has laid the foundation and is now working toward implementing a pro-growth economic agenda that will sustain U.S. economic strength now and for future generations of Americans.

The central components of this agenda include:

- **Tax Relief for all Americans Who Pay Income Taxes** – Tax relief is at the core of U.S. economic strength.
- **American Competitiveness Initiative** – Increase commitment to research and development, strengthen education in math, science, and engineering, and ensure that America remains the economic leader of the world.
- **Affordable & Available Health Care for All American Families** – The President has five key policies to make health care more affordable and available for all American families.
- **The Advanced Energy Initiative** – To continue economic growth in a global economy, American must find solutions to its energy needs.
- **Opening new markets for America's Workers** – On a level playing field, American businesses and workers can compete with anyone in the world.



TAX RELIEF FOR ALL AMERICANS WHO PAY INCOME TAXES

The Administration has dramatically reduced taxes for Americans over the past six years. Through the end of this year, taxpayers will receive a total of \$1.1 trillion in tax relief (\$880 billion through the end of 2005).

- **The tax relief enacted in 2001 and 2003 reduced tax rates.** Lower income tax rates allow taxpayers to keep more of what they earn and increase the after-tax reward from work, saving, investment, and entrepreneurship. Lower income tax rates increase economic growth, create jobs, and living standards.
- **The tax relief also lowered the tax rate on dividend and capital gains taking a significant step toward eliminating the double tax on corporate profits.** This important tax change encourages investment by lowering the effective tax rate on new investment by 15 percent and helps reduce the role taxes play in a number of important economic decisions that interfere with the productive use of our nation's resources.
- **The tax relief lowered the taxes of families by doubling the child tax credit and reducing marriage penalties.** In 2004, the combined effects of the tax cuts have reduced marriage penalties by over \$15 billion. Marriage penalties have been eliminated for about 7 million couples.
- **It will now be easier for taxpayers to preserve small businesses and family farms from one generation to the next through repeal of the estate tax.** The repeal of the estate tax also helps encourage economic growth and increase living standards by increasing the after-tax reward to investors.
- **The tax relief increased the amount of investment small businesses are allowed to expense from \$25,000 to \$100,000.** This provision encourages investment, and more investment leads to higher productivity, higher economic growth, and higher standards of living for all Americans.
- **With the tax relief, higher income taxpayers now pay a larger share of the individual income taxes.** In 2006, the projected tax share for lower-income taxpayers will fall, while the tax share for higher-income taxpayers will rise.



THE AMERICAN COMPETITIVENESS INITIATIVE

Sustained scientific advancement and innovation are vital to maintaining U.S. competitiveness. The American Competitiveness Initiative (ACI) is a strategy to keep America the most innovative and competitive economy in the world. The ACI will encourage more aggressive investment by businesses in research and development, increase Federal support for vital basic research, and improve math and science education for America's students.

Core elements of ACI:

- **Pro-growth tax policies** that encourage research, development, education, and investment.
- **Federal investment in cutting-edge research** to bolster discovery and production of innovative, marketable technologies, processes, and techniques.
- **Federal investment in the tools of science** – facilities and instruments that enable discovery and development – particularly unique, expensive, or large-scale tools beyond the means of a single organization.
- **Secondary education system** that equips each new generation of Americans with the foundational skills and educational they need to compete in a global economy.
- **Higher education institutions** that provide American students access to world-class education and research opportunities in mathematics, science, engineering, and technology.
- **Workforce training systems** that provide more workers the opportunity to pursue the training and other services necessary to improve their skills and better compete in the 21st century.
- **Immigration policies** that will continue to enable the United States to attract the best and brightest scientific minds from around the world to work alongside the best and brightest American scientists.
- **Private sector investment** in research and development that enables the translation of fundamental discoveries into the production of useful and marketable technologies, processes, and techniques.
- **Intellectual property protection** system for public and private sector investments in research.



AFFORDABLE & ACCESSIBLE HEALTHCARE FOR ALL AMERICAN FAMILIES

The President has five key policies to make health care more affordable and available for all American families.

1. Expand Health Savings Accounts (HSAs) and lead patients to demand more value for their money by enabling them to control their health care spending.

- HSAs allow Americans to contribute to a tax-free account to pay for routine medical needs and to build up savings by rolling over any contributions unspent in a given year.
- HSAs help move our health care system away from one where a third party pays for most of the costs to one where consumers make their own health care decisions.
- HSAs are growing – From March 2005 to January 2006, the number of HSAs tripled from 1 million to more than 3 million.
 - Forty percent of those who own HSAs have family incomes below \$50,000.
 - More than one-third of those who bought HSAs on their own had previously been uninsured.
- HSAs are helping American hospitals, as more insured Americans means fewer people arriving at our Nation's hospitals needing uncompensated care.
- Congress needs to give Americans who buy HSA policies on their own the same tax breaks as those who get their health insurance from their employers.
- Congress should fix the tax code to raise the limit on tax-free contributions to HSAs.
- The President's proposed refundable tax credit will help low-income Americans purchase health coverage on the individual market.
- Health insurers must be allowed to sell HSA policies nationwide.
- Congress must move legislation that improves tax-free HSAs.

2. Increase transparency to get the best quality care for the best price.

- Patients need to know in advance what their medical options are, the quality and expertise of doctors and hospitals in their area, and what their medical procedure will cost.
- Hospitals and insurers should make information on prices and quality available to all patients without having to be mandated through legislation requiring transparency by law.

3. Apply modern information technology so that doctors' offices and hospitals have the most advanced technology of the 21st century.

- A nationwide information network will protect the privacy of a patient's medical information while making health information available in real-time.
- The President is dedicated to his goal of most Americans having an electronic health record by 2014.



4. Enact Association Health Plans (AHPs).

- AHPs would allow small firms to negotiate lower health-insurance rates like larger businesses by banding together across state lines and buy insurance at the same discounts available to big companies.
- Congress must pass legislation that makes health insurance more affordable for small businesses.

5. Enact Medical Liability Reform.

- Frivolous lawsuits are driving good doctors out of practice and driving up costs by forcing many doctors to practice defensive medicine – ordering unnecessary tests and writing unnecessary prescriptions.
- The total cost of defensive medicine to our society is an estimated \$60 billion to \$100 billion per year, including \$28 billion billed directly to taxpayers through increased costs of Medicare, Medicaid, VA, and other Federal health programs.
- Junk lawsuits are a national issue requiring a national response. The House has passed a good medical liability reform bill, and it is time for the Senate to act.



THE ADVANCED ENERGY INITIATIVE: ENSURING A CLEAN, SECURE ENERGY FUTURE

To continue economic growth in a global economy, American must find solutions to its energy needs. Over the past 30 years, the U.S. economy has grown three times faster than our energy consumption. America's dynamic economy is growing, which will increase demand for electricity. Global demand for oil is rising faster than global supply and as the global economy becomes more competitive, American must find new energy alternatives to generate electricity.

The President is working to meet America's energy demands by developing clean, domestic, affordable supplies of energy. The Advanced Energy Initiative (AEI) promotes America's four main sources of electricity: coal, nuclear, natural gas, and renewable sources.

Nuclear power

- Abundant and Affordable: America's second-leading source of electricity – more than 100 nuclear plants operate in 31 states.
- Clean: Produces no air pollution or greenhouse gases, and there is a growing consensus that it is an environmentally responsible choice.
- Safe: Advances in science, engineering, and plant design have made nuclear power plants far safer than ever before.

The President is helping expand America's use of nuclear power:

- The Energy Bill signed in 2005 provides loan incentives, production tax credits federal risk insurance for new builders.
- The Nuclear Power 2010 Initiative: \$1.1 billion public-private partnership to facilitate new nuclear plant projects. Interest in new construction has risen from two to 16 companies since the initiative began.
- Yucca Mountain Nuclear Waste Repository is critical to expanding nuclear power in the United States because it will provide a safe geologic repository to store spent fuel and nuclear waste.
- The Global Nuclear Energy Partnership will enable America to work with other nations having advanced nuclear energy programs like France, Japan, and Russia.

Coal

- By far America's most abundant and affordable energy resource, America has enough coal to last about 240 years at current rates of consumption.
- In 2000, President Bush promised to invest \$2 billion over ten years to promote clean coal and we are several years ahead of schedule in keeping that promise.
- By 2012, under the FutureGen Initiative, America will build the world's first power plant to run on coal an remove virtually all pollutants.



U.S. ECONOMIC STRENGTH BRIEF

Natural Gas

- Natural gas is the most versatile fuel, but demand for it has increased, and the price has more than doubled from 2001 to 2005.
- The Energy Bill that President Bush signed last year expands the ability to receive liquefied natural gas – a super-cooled form of natural gas that can be transported from overseas on tankers.

Alternative & Renewable Energy

Wind:

- Expanding the use and lowering the cost of wind turbine technology will enable the U.S. to get more electricity from clean, renewable wind power.
- The areas identified as being suitable for construction of wind turbines has the potential to supply up to 20 percent of our Nation's electricity.
- The President's FY2007 Budget proposes \$44 million in funding for wind energy research.

Solar:

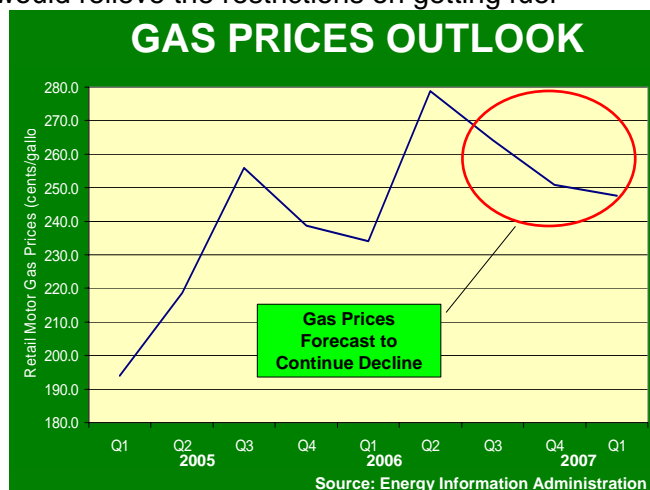
- Solar technology has the potential to change the way all Americans live and work.
- President Bush's FY2007 Budget proposes nearly \$150 million in funding for government and private research into solar technology – an increase of more than 75 percent over current levels, which will help make solar power competitive by 2015.

The President is Dedicated to Relieving High Gas Prices

High gas prices act like a hidden tax on working Americans, as the costs of gas are the same, regardless of one's income and ability. Aside from the longer terms initiatives outlined herein, the President is working to relieve the high cost burden on Americans in the short term.

- Strategic Reserves: The President directed the Strategic Petroleum reserve to defer filling the reserve this summer.
- The President directed EPA Administrator Steve Johnson to use all his available authority to grant waivers that would relieve the restrictions on getting fuel delivered to the pump.
- The President has called on Congress to simplify the process for building new refineries and to make it easier for refiners to make modifications to increase production.

The Energy Information Administration is predicting gas prices will come down in the coming months.





Opening New Markets for America's Workers

President Bush's top economic priority is the creation of more jobs for American workers. Free and fair trade will help create more higher-paying jobs for American workers by opening new markets for American products and services, bringing lower prices and more choices to American consumers, and attracting foreign companies to invest and hire in the United States. America is economically stronger when we participate fully in the worldwide economy. When 95% of the potential customers for American products live outside the U.S., America must reject policies that would result in economic isolationism.

- U.S. exports accounted for about 25 percent of U.S. economic growth during the 1990s and supported an estimated 12 million jobs.
- Jobs in exporting plants pay wages that average up to 18 percent more than jobs in non-exporting plants.
- Approximately one out of every five factory jobs in the U.S. directly depends on trade.
- American farmers export one in three acres of their crops, and exports generate nearly 25 percent of farmers' gross cash sales.
- America's dynamic high-tech sector depends on exports. In 2003, exports of advanced technology products totaled \$180 billion.

The President believes American workers are the best in the world, and when given a level playing field they can compete against workers anywhere and thus, he is acting aggressively to negotiate trade agreements that slash foreign tariffs and remove the barriers that disadvantage American workers and exporters.

Free and fair trade...

- Helps create jobs at home by opening foreign markets to American exports – as well as by encouraging foreign companies to set up operations in the United States. Foreign-owned firms directly employ more than 6.4 million workers in the U.S. - jobs that might otherwise go to foreign workers – and that does not include the millions of people who work at companies that supply parts and material to foreign-owned firms. Examples include:
- Helps to lower prices and increase choices for American consumers. Over the past decade, NAFTA and the Uruguay Round agreements have raised the standards of living of the average American family of four by up to \$2,000 a year, according to the Office of the U.S. Trade Representative. A University of Michigan study shows lowering global trade barriers on all products and services by even one-third could boost the U.S. economy by \$177 billion, thereby raising living standards for the average family by \$2,500 annually.

As we recognize the benefits of free and fair trade, we also recognize that any job loss from economic change - whether arising from trade or technology or increased productivity – is painful for some workers and their families. Manufacturing output, for



instance, increased six-fold between 1950 and 2000 – yet, because of high productivity and new technologies, about the same number of workers are employed in

manufacturing. Many of the new jobs being created require new skills, and we must help these workers deal with dislocation and acquire the skills necessary to find good-paying jobs. The President's FY 2005 budget commits significant resources to help displaced workers find jobs.

- **Job training and employment assistance:** The President's FY 2005 budget proposes \$23 billion for job training and employment assistance.
- **Jobs for the 21st Century:** The President has proposed more than \$500 million for his Jobs for the 21st Century initiative to help prepare U.S. workers to take advantage of the better skilled, higher-paying jobs of the future. This includes \$250 million in proposed funding targeted to community colleges to train workers for industries that are creating the most new jobs, as well as funding for new secondary education programs to better prepare high school students for the jobs of the 21st Century.
- **Trade Adjustment Assistance:** In 2002, President Bush signed a law expanding the Trade Adjustment Assistance program, which will provide \$1.1 billion in FY 2005 for training and cash benefits for workers dislocated by increased imports or a shift of production to certain foreign countries. Workers are also eligible to receive a Health Coverage Tax Credit covering 65% of the premium for qualified health insurance. Workers over 50 may be entitled to Alternative Trade Adjustment Assistance, which pays half the difference between their old wage and the wage they are receiving at new employment for up to two years and up to \$10,000.

A pro-growth economic agenda, a strong education system, and help for American workers to gain the skills to secure good jobs are the right ways to respond to the challenges of our growing and changing economy. A retreat to economic isolationism is the wrong course to take. Isolationist policies would endanger our economic recovery; cost U.S. workers jobs, lead to higher prices for American consumers, and put U.S. workers and companies at a competitive disadvantage.